

Message Text

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C O N F I D E N T I A L OSLO 3302

E.O. 11652: GDS

TAGS: EFIN NO

SUBJ: OUTLOOK FOR THE NORWEGIAN ECONOMY

1. ECONOMIC ISSUES WILL BE PROMINENT IN NORWAY THIS FALL WHEN PARLIAMENT RECONVENES IN OCTOBER TO CONSIDER THE BUDGET FOR 1976. INFLATION, SPURRED BY CONSUMER DEMAND, IS RUNNING AT 12 PERCENT. REAL DISPOSABLE INCOME, WHICH ROSE AS HIGH AS 8 PERCENT LAST YEAR FOR SOME GROUPS, IS EXPECTED TO RISE ALMOST AS MUCH THIS YEAR UNDER THE IMPACT OF WAGE INCREASES AVERAGING ABOUT 19 PERCENT. THE INTERNATIONAL RECESSION IS BEGINNING TO BE FELT. EXPORTS (EXPORTS AND IMPORTS ARE EACH EQUIVALENT TO NEARLY 50 PERCENT OF GNP) ARE LAGGING, AND THERE ARE INDICATIONS THAT UNEMPLOYMENT MAY RISE AS HIGH AS 1 PERCENT FOR THE FIRST TIME IN YEARS.

2. THE GOVERNMENT IS COMMITTED TO FULL EMPLOYMENT, BUT INDUSTRY IS INCREASINGLY FEELING THE PINCH OF THE WORLD RECESSION. ORDER BACKLOGS ARE DWINDLING AND INVENTORIES ARE RISING. SO FAR PRODUCTION HAS NOT BEEN REDUCED IN MOST INDUSTRIES. HOWEVER, FUTURE PROSPECTS FOR INDUSTRIES SUCH AS SHIPBUILDING AND RELATED SECTORS ARE EXTREMELY BLEAK, AND THE GOVERNMENT HAS INTRODUCED A NUMBER OF PROGRAMS TO HELP COMPANIES WEATHER THE SLUMP. DEMAND FOR FUNDS IS STRONG, BUT MOSTLY
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TO FINANCE INVENTORIES OR TO PAY OUTSTANDING OBLIGATIONS.

SHIPOWNERS ARE EXPERIENCING PARTICULAR DIFFICULTY IN OBTAINING FUNDS TO FINANCE SHIPS ORDERED BEFORE THE RECESSION.

3. NORWAY'S CURRENT ECONOMIC POLICY WAS DRAWN UP DURING ECONOMIC BOOM CONDITIONS LAST YEAR. MAJOR OBJECTIVES WERE TO DAMPEN SURGING INVESTMENT AND TO STIMULATE CONSUMER INCOME AND SPENDING AFTER SEVERAL FLAT YEARS. A 7.5 BILLION KRONER BALANCE OF PAYMENTS DEFICIT FOR 1975 WAS FORESEEN, BUT IT WAS ANTICIPATED THAT OIL AND GAS REVENUE WOULD WIPE OUT THIS DEFICIT BY 1977. THE DEFICIT IN 1974 WAS 3.3 BILLION KRONER.

4. DURING THE FIRST FIVE MONTHS THIS YEAR THE DEFICIT HAS RUN AT A RATE WHICH WOULD AMOUNT, IF UNCHECKED, TO 16 TO 17 BILLION KRONER ANNUALLY, EQUIVALENT TO NEARLY ONE-THIRD OF EXPORTS AND 13 PERCENT OF GNP IN 1974. CONSUMER SPENDING IS NOW THE MAJOR EXPANSIONARY FORCE DRIVING THE ECONOMY. INCREASED OIL AND GAS RECEIPTS DURING THE SECOND HALF OF THE YEAR ARE EXPECTED TO REDUCE THIS PAYMENTS GAP SOMEWHAT TO 12 TO 13 BILLION KRONER STILL ABOUT FOUR TIMES THE 1974 DEFICIT. ANOTHER LARGE DEFICIT IS FORESEEN IN 1976 BEFORE OIL AND GAS REVENUE AND ECONOMIC RECOVERY ELSEWHERE BRING NORWAY'S PAYMENTS INTO BALANCE.

5. DIRECTOR GENERAL OIM IN THE FINANCE MINISTRY DOES NOT FORESEE ANY MAJOR SHIFTS IN NORWAY'S PRESENT ECONOMIC POLICY DESPITE CURRENT WEAKNESS AND THE LART PAYMENTS DEFICIT. HE CONCEDES, HOWEVER, THAT FURTHER ASSISTANCE IN INDUSTRY MAY BE NECESSARY. IN ADDITION NORWAY HAS THE OPTION OF ACCELERATING ITS NORTH SEA OIL AND GAS DEVELOPMENT. WHILE TANGIBLE RESULTS WOULD TAKE TIME TO FILTER DOWN, SUCH A MOVE MIGHT BE PSYCHOLOGICALLY USEFUL. IT WOULD ALSO SERVE AS A HEDGE AGAINST AN UNEXPECTED DELAY IN EXPLOITATION OF EXISTING FINDS OR IN RECOVERY OF WORLD MARKETS FOR NORWEGIAN EXPORTS, AND THERE IS INCREASING TALK IN OFFICIAL CIRCLES OF POSSIBLE MODEST MOVEMENT IN THIS DIRECTION.

6. OIEN ADMITS THAT SOME DAMPENING OF CONSUMER DEMAND AND INFLATION MAY BE NECESSARY AND THAT FURTHER TAX RELIEF PROMISED BY THE GOVERNMENT MAY BE POSTPONED. STRINGENT MEASURES ARE UNLIKELY AND WOULD PROBABLY ALIENATE VOTERS. THERE HAS BEEN

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TOO MUCH EMPHASIS ON THE RICHES NORWAY EXPECTS TO OBTAIN FROM OIL AND GAS TO ALLOW THE GOVERNMENT TO APPLY THE BRAKES TOO ABRUPTLY. AS IT IS THE RULING LABOR PARTY IS EXPECTED TO LOSE GROUND IN LOCAL ELECTIONS THIS SEPTEMBER AND MUST PREPARE FOR COST OF LIVING WAGE NEGOTIATIONS THIS FALL, THE BIENNIAL COUNTRY-WIDE WAGE NEGOTIATIONS NEXT SPRING, AND THE GENERAL ELECTIONS THE FOLLOWING YEAR.

7. THE GOVERNMENT EXPECTS THE SLOWDOWN WILL BOTTOM OUT THIS WINTER. IT IS BETTING THAT THE SLOWDOWN WILL BE RELATIVELY MILD AND THAT RECOVERY WILL BEGIN IN THE SPRING. THE GOVERNMENT IS, THEREFORE, RELUCTANT TO DAMPEN CONSUMER SPENDING TOO GREATLY IN ORDER TO REDUCE THE PAYMENTS DEFICIT AS THIS COULD DEEPEN AND PROLONG THE SLUMP. ON THE OTHER HAND A DELAY IN RECOVERY OF EXPORT MARKETS OR IN THE RECEIPT OF OIL INCOME COULD NECESSITATE A POLITICALLY DIFFICULT -- AND POTENTIALLY DAMAGING TO THE GOVERNMENT -- RE-EVALUATION OF THIS STRATEGY.
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